

Village of Martin
Annual Financial Statements
and
Auditors' Report
March 31, 2008

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Village of Martin
List of Elected and Appointed Officials
March 31, 2008

Village Council

Gary Brinkhuis	President
Donald Flower	Trustee
Larry Harness	Trustee
Rick Martin	Trustee
Robert Porter	Trustee

Other Officers and Officials

Anita Rambadt	Treasurer
Joyce Merrill	Acting Clerk

Independent Auditors' Report

To the Members of the Village Council
Village of Martin

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund Village of Martin as of and for the year ended March 31, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund Village of Martin as of March 31, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2008 on our consideration of the Village of Martin's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information identified in the table of contents is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Martin 's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Village has not presented the Managements' Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not a required part of the basic financial statements.

Yeo & Yeo, P.C.

October 10, 2008
Kalamazoo, Michigan

Village of Martin
Statement of Net Assets
March 31, 2008

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 717,086	\$ 377,987	\$ 1,095,073
Receivables			
Taxes	1,605	-	1,605
Customers	-	43,784	43,784
Special assessments	-	222,917	222,917
Due from other units of government	23,868	-	23,868
Internal balances	101,695	(101,695)	-
Capital assets not being depreciated	23,800	-	23,800
Capital assets, net of accumulated depreciation	<u>120,791</u>	<u>2,488,810</u>	<u>2,609,601</u>
Total assets	<u>988,845</u>	<u>3,031,803</u>	<u>4,020,648</u>
Liabilities			
Accounts payable	3,022	3,777	6,799
Due to other units of government	-	10,226	10,226
Noncurrent liabilities			
Due within one year	-	20,000	20,000
Due in more than one year	<u>-</u>	<u>1,195,590</u>	<u>1,195,590</u>
Total liabilities	<u>3,022</u>	<u>1,229,593</u>	<u>1,232,615</u>
Net Assets			
Invested in capital assets, net of related debt	144,591	1,273,220	1,417,811
Unrestricted	<u>841,232</u>	<u>528,990</u>	<u>1,370,222</u>
Total net assets	<u>\$ 985,823</u>	<u>\$ 1,802,210</u>	<u>\$ 2,788,033</u>

See Accompanying Notes to Financial Statements

Village of Martin
Statement of Activities
For the Year Ended March 31, 2008

	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Primary Government		
			Governmental Activities	Business-type Activities	Total
Functions/Programs					
Primary government					
Governmental activities					
General government	\$ 33,025	\$ -	\$ (33,025)	\$ -	\$ (33,025)
Public safety	9,719	-	(9,719)	-	(9,719)
Public works	59,241	-	(59,241)	-	(59,241)
Total governmental activities	102,103	-	(102,103)	-	(102,103)
Business-type activities					
Sewer	78,451	59,191	-	(19,260)	(19,260)
Water	150,905	116,818	-	(34,087)	(34,087)
Total business-type activities	229,356	176,009	-	(53,347)	(53,347)
Total primary government	\$ 331,459	\$ 176,009	(102,103)	(53,347)	(155,450)
General revenues					
Property taxes			85,264	-	85,264
State shared revenue			78,866	-	78,866
Unrestricted investment earnings			20,551	23,287	43,838
Miscellaneous			43,433	499	43,932
Total general revenues and transfers			228,114	23,786	251,900
Change in net assets			126,011	(29,561)	96,450
Net assets - beginning of year			859,812	1,831,771	2,691,583
Net assets - end of year			\$ 985,823	\$ 1,802,210	\$ 2,788,033

See Accompanying Notes to Financial Statements

Village of Martin
Governmental Funds
Balance Sheet
March 31, 2008

	<u>Special Revenue Funds</u>			Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	
Assets				
Cash and cash equivalents	\$ 139,781	\$ 256,916	\$ 40,770	\$ 437,467
Receivables				
Taxes	1,605	-	-	1,605
Due from other units of government	8,162	14,651	1,055	23,868
Due from other funds	<u>159,592</u>	<u>-</u>	<u>-</u>	<u>159,592</u>
 Total assets	 <u>\$ 309,140</u>	 <u>\$ 271,567</u>	 <u>\$ 41,825</u>	 <u>\$ 622,532</u>
Liabilities				
Accounts payable	\$ 1,886	\$ 123	\$ -	\$ 2,009
Due to other funds	32,958	132,308	14,716	179,982
Deferred revenue	<u>2,687</u>	<u>-</u>	<u>-</u>	<u>2,687</u>
 Total liabilities	 <u>37,531</u>	 <u>132,431</u>	 <u>14,716</u>	 <u>184,678</u>
Fund Balances				
Unreserved, reported in:				
General fund	271,609	-	-	271,609
Special revenue funds	<u>-</u>	<u>139,136</u>	<u>27,109</u>	<u>166,245</u>
 Total fund balances	 <u>271,609</u>	 <u>139,136</u>	 <u>27,109</u>	 <u>437,854</u>
 Total liabilities and fund balances	 <u>\$ 309,140</u>	 <u>\$ 271,567</u>	 <u>\$ 41,825</u>	 <u>\$ 622,532</u>

Village of Martin
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
March 31, 2008

Total fund balances for governmental funds	\$ 437,854
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Total net assets for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	136,142
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Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	2,687
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Internal service funds are included as part of governmental activities.	<u>409,140</u>
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Net assets of governmental activities	<u><u>\$ 985,823</u></u>
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Village of Martin
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2008

	Special Revenue Funds			Total Governmental Funds
	General	Major Street	Local Street	
Revenues				
Taxes	\$ 85,264	\$ -	\$ -	\$ 85,264
Licenses and permits	2,194	-	-	2,194
State revenue sharing	40,111	32,935	5,977	79,023
Local contributions	-	34,408	-	34,408
Interest income	6,582	12,221	1,672	20,475
Other revenue	4,396	2,435	-	6,831
Total revenues	138,547	81,999	7,649	228,195
Expenditures				
Current				
General government	43,905	-	-	43,905
Public safety	9,719	-	-	9,719
Public works	39,087	137,869	4,363	181,319
Total expenditures	92,711	137,869	4,363	234,943
Excess of revenues over expenditures	45,836	(55,870)	3,286	(6,748)
Other financing uses				
Transfers out	32,500	-	-	32,500
Net change in fund balance	13,336	(55,870)	3,286	(39,248)
Fund balance - beginning of year	258,273	195,006	23,823	477,102
Fund balance - end of year	\$ 271,609	\$ 139,136	\$ 27,109	\$ 437,854

See Accompanying Notes to Financial Statements

Village of Martin
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended March 31, 2008

Net change in fund balances - Total governmental funds \$ (39,248)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(3,777)
Capital outlay	106,324

Internal service funds are also included as governmental activities	<u>62,869</u>
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Change in net assets of governmental activities	<u>\$ 126,011</u>
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Village of Martin
Proprietary Funds
Statement of Net Assets
March 31, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 147,175	\$ 230,812	\$ 377,987	\$ 279,619
Receivables				
Customers	23,078	20,706	43,784	-
Special assessments, current	6,180	13,400	19,580	-
Due from other funds	-	-	-	128,013
Total current assets	<u>176,433</u>	<u>264,918</u>	<u>441,351</u>	<u>407,632</u>
Noncurrent assets				
Special assessments receivable, deferred	-	203,337	203,337	-
Capital assets, net	<u>775,851</u>	<u>1,712,959</u>	<u>2,488,810</u>	<u>8,449</u>
Total noncurrent assets	<u>775,851</u>	<u>1,916,296</u>	<u>2,692,147</u>	<u>8,449</u>
Total assets	<u>952,284</u>	<u>2,181,214</u>	<u>3,133,498</u>	<u>416,081</u>

Village of Martin
Proprietary Funds
Statement of Net Assets
March 31, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Liabilities				
Current liabilities				
Accounts payable	2,855	922	3,777	1,013
Due to other funds	44,811	57,568	102,379	5,244
Due to other units of government	10,226	-	10,226	-
Current portion of noncurrent liabilities	-	20,000	20,000	-
Total current liabilities	<u>57,892</u>	<u>78,490</u>	<u>136,382</u>	<u>6,257</u>
Noncurrent liabilities				
Long-term debt net of current portion	-	1,195,590	1,195,590	-
Total noncurrent liabilities	<u>-</u>	<u>1,195,590</u>	<u>1,195,590</u>	<u>-</u>
Total liabilities	<u>57,892</u>	<u>1,274,080</u>	<u>1,331,972</u>	<u>6,257</u>
Net Assets				
Invested in capital assets, net of related debt	775,851	497,369	1,273,220	8,449
Restricted for:				
Unrestricted	<u>118,541</u>	<u>409,765</u>	<u>528,306</u>	<u>401,375</u>
Total net assets	<u>\$ 894,392</u>	<u>\$ 907,134</u>	1,801,526	<u>\$ 409,824</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>684</u>	
Net assets of business-type activities			<u>\$ 1,802,210</u>	

See Accompanying Notes to Financial Statements

Village of Martin
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended March 31, 2008

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 59,191	\$ 116,818	\$ 176,009	\$ -
Billings to other funds	-	-	-	35,607
Other revenue	-	-	-	12,139
Total operating revenue	59,191	116,818	176,009	47,746
Operating expenses				
Personnel services	1,662	20,391	22,053	1,438
Supplies	-	-	-	4,227
Contractual services	2,170	80	2,250	-
Utilities	2,876	5,660	8,536	-
Repairs and maintenance	37,921	3,725	41,646	2,665
Other expenses	1,623	7,837	9,460	2,462
Depreciation	32,510	51,659	84,169	5,859
Total operating expenses	78,762	89,352	168,114	16,651
Operating income (loss)	(19,571)	27,466	7,895	31,095

See Accompanying Notes to Financial Statements

Village of Martin
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended March 31, 2008

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
Nonoperating revenues (expenses)				
Special assessment revenue	-	499	499	-
Interest income	5,593	17,694	23,287	76
Interest expense	-	(61,926)	(61,926)	(118)
Total nonoperating revenues (expenses)	5,593	(43,733)	(38,140)	(42)
Income (loss) before contributions and transfers out	(13,978)	(16,267)	(30,245)	31,053
Transfers in	-	-	-	32,500
Change in net assets	(13,978)	(16,267)	(30,245)	63,553
Net assets - beginning of year	908,370	923,401	1,831,771	346,271
Net assets - end of year	<u>\$ 894,392</u>	<u>\$ 907,134</u>	1,801,526	<u>\$ 409,824</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			684	
Change in net assets of business-type activities			<u>\$ 1,802,210</u>	

Village of Martin
Proprietary Funds
Statement of Cash Flows
For the Year Ended March 31, 2008

	Business-type Activities - Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	Equipment
Cash flows from operating activities				
Receipts from customers	\$ 45,988	\$ 106,429	\$ 152,417	\$ 12,139
Receipts from interfund users	-	-	-	35,607
Receipts from other funds	-	-	-	(25,607)
Payments to other funds	2,025	8,821	10,846	1,439
Payments to suppliers	(31,411)	(16,687)	(48,098)	(8,555)
Payments to employees	(1,662)	(20,391)	(22,053)	(1,438)
Payments for interfund services used	(412)	(363)	(775)	-
Net cash provided by operating activities	<u>14,528</u>	<u>77,809</u>	<u>92,337</u>	<u>13,585</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	-	-	32,500
Cash flows from capital and related financing activities				
Proceeds from special assessments	2,814	13,933	16,747	-
Purchases/construction of capital assets	-	-	-	(5,015)
Principal and interest paid on long-term debt	-	(91,927)	(91,927)	(3,413)
Net cash provided (used) by capital and related financing activities	<u>2,814</u>	<u>(77,994)</u>	<u>(75,180)</u>	<u>(8,428)</u>
Cash flows from investing activities				
Interest received	<u>6,138</u>	<u>17,694</u>	<u>23,832</u>	<u>75</u>
Net cash provided by investing activities	<u>6,138</u>	<u>17,694</u>	<u>23,832</u>	<u>75</u>
Net increase in cash and cash equivalents	23,480	17,509	40,989	37,732
Cash and cash equivalents - beginning of year	<u>123,695</u>	<u>213,303</u>	<u>336,998</u>	<u>241,887</u>
Cash and cash equivalents - end of year	<u>\$ 147,175</u>	<u>\$ 230,812</u>	<u>\$ 377,987</u>	<u>\$ 279,619</u>

See Accompanying Notes to Financial Statements

Village of Martin
Proprietary Funds
Statement of Cash Flows
For the Year Ended March 31, 2008

	Business-type Activities - Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
				Equipment
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (19,571)	\$ 27,466	\$ 7,895	\$ 31,095
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	32,510	51,659	84,169	5,859
Changes in assets and liabilities				
Receivables (net)	(13,203)	(10,389)	(23,592)	-
Due from other funds	-	-	-	(25,607)
Accounts payable	2,541	252	2,793	799
Due to other funds	2,025	8,821	10,846	1,439
Net cash provided by operating activities	<u>\$ 14,528</u>	<u>\$ 77,809</u>	<u>\$ 92,337</u>	<u>\$ 13,585</u>

Village of Martin
Notes to Financial Statements
March 31, 2008

Note 1 - Summary of Significant Accounting Policies

Reporting entity

Village of Martin is governed by an elected seven-member Board. The accompanying financial statements present the government, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Village of Martin
Notes to Financial Statements
March 31, 2008

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the Village. Funding is primarily through state shared gas and weight taxes.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

Internal Service Funds accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Village of Martin
Notes to Financial Statements
March 31, 2008

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the government totaled \$9,270,184, on which ad valorem taxes consisted of 8.9609 mills for operating purposes. This resulted in \$83,069 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Restricted assets – Certain revenue bonds of the Enterprise Funds require amounts to be set aside for a bond reserve. These amounts have been classified as restricted investments.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 (\$1,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 10 years
Office equipment computer equipment	5 to 7 years
Computer equipment	3 to 7 years

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Village of Martin
Notes to Financial Statements
March 31, 2008

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to March 31, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. Public hearings are held to obtain taxpayer comments and the budget is legally enacted through passage of a resolution prior to April 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Clerk is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Note 3 - Deposits and Investments

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Equivalents</u>
Governmental activities	\$ 717,086
Business-type activities	<u>377,987</u>
Total	<u>\$ 1,095,073</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	<u>\$ 1,095,073</u>

Interest rate risk – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 60 months.

Village of Martin
Notes to Financial Statements
March 31, 2008

Credit risk – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$995,108 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Note 4 - Receivables and Deferred Revenue

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
Primary government		
Special assessments	\$ 203,337	Water

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	<u>\$ 2,687</u>

Note 5 - Capital Assets

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 23,800	\$ -	\$ -	\$ 23,800
Capital assets being depreciated				
Infrastructure	5,870	92,415	-	98,285
Buildings, additions, improvements	12,422	-	-	12,422
Machinery and equipment	127,824	18,924	69,554	77,194
Total capital assets being depreciated	146,116	111,339	69,554	187,901
Less accumulated depreciation for				
Infrastructure	506	748	-	1,254
Buildings, additions, improvements	9,109	414	-	9,523
Machinery and equipment	117,413	8,474	69,554	56,333
Total accumulated depreciation	127,028	9,636	69,554	67,110
Net capital assets being depreciated	19,088	101,703	-	120,791
Governmental activities capital assets, net	\$ 42,888	\$ 101,703	\$ -	\$ 144,591

Village of Martin
Notes to Financial Statements
March 31, 2008

	<u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u>
Business-type activities				
Capital assets being depreciated				
Buildings, additions, improvements	\$ 169,110	\$ -	\$ -	\$ 169,110
Machinery and equipment	1,643,445	-	-	1,643,445
Water system	1,970,022	-	-	1,970,022
Total capital assets being depreciated	<u>3,782,577</u>	<u>-</u>	<u>-</u>	<u>3,782,577</u>
Less accumulated depreciation for				
Machinery and equipment	785,084	32,510	-	817,594
Water system	424,514	51,659	-	476,173
Total accumulated depreciation	<u>1,209,598</u>	<u>84,169</u>	<u>-</u>	<u>1,293,767</u>
Net capital assets being depreciated	2,572,979	(84,169)	-	2,488,810
Business-type capital assets, net	<u>\$ 2,572,979</u>	<u>\$ (84,169)</u>	<u>\$ -</u>	<u>\$ 2,488,810</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities

General government	\$ 3,029
Public works	748
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>5,859</u>
Total governmental activities	<u>9,636</u>

Business-type activities

Sewer	32,510
Water	<u>51,659</u>
Total business-type activities	<u>84,169</u>
Total primary government	<u>\$ 93,805</u>

Note 6 - Interfund Receivables, Payable, Transfers

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
General Fund	Equipment Fund	\$ 5,244
General Fund	Major Street Fund	57,841
General Fund	Local Street Fund	6,470
General Fund	Sewer Fund	37,067
General Fund	Water Fund	52,970
Equipment Fund	General Fund	32,958
Equipment Fund	Major Street Fund	74,467
Equipment Fund	Local Street Fund	8,246
Equipment Fund	Sewer Fund	7,744
Equipment Fund	Water Fund	<u>4,598</u>
		<u>\$ 287,605</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Equipment Fund	<u>\$ 32,500</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Village of Martin
Notes to Financial Statements
March 31, 2008

Note 7 - Long-Term Debt

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type activities									
Bonds and notes payable									
General obligation bonds									
Rural Development Bonds	\$ 1,370,000	April 1, 2041	5%	\$10,000-55,000	<u>\$ 1,245,590</u>	<u>\$ -</u>	<u>\$ 30,000</u>	<u>\$ 1,215,590</u>	<u>\$ 20,000</u>

Village of Martin
Notes to Financial Statements
March 31, 2008

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Business-type Activities	
	Principal	Interest
2009	\$ 20,000	\$ 57,266
2010	20,000	56,316
2011	25,000	55,247
2012	25,000	54,059
2013	25,000	52,872
2014-2018	140,000	245,478
2019-2023	170,000	208,428
2024-2028	205,000	163,896
2029-2033	235,000	111,884
2034-2038	260,000	53,103
2039-2041	90,590	3,842
	<u>\$ 1,215,590</u>	<u>\$ 1,062,391</u>

Note 8 - Risk Management

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 9 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor

cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Note 10 - Upcoming Accounting and Reporting Changes

The Governmental Accounting Standards Board has recently released statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending March 31, 2010.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial statements with periods beginning after December 15, 2007. However, measurement is required as of the beginning of the period.

The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause government-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending March 31, 2010.

Village of Martin
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
Revenues				
Taxes				
Property taxes	\$ 75,000	\$ 75,000	\$ 85,264	\$ 10,264
Licenses and permits	-	-	2,194	2,194
State revenue sharing	40,000	40,000	40,111	111
Interest income	3,000	3,000	6,582	3,582
Other revenue	4,000	4,000	4,396	396
Total revenues	122,000	122,000	138,547	16,547
Expenditures				
General government				
Village board	16,000	16,000	10,373	(5,627)
Clerk	8,500	8,500	6,459	(2,041)
Treasurer	7,500	7,500	5,899	(1,601)
Elections	-	-	504	504
Buildings and grounds	20,000	20,000	17,826	(2,174)
Attorney	2,500	2,500	2,844	344
Total general government	54,500	54,500	43,905	(10,595)

Village of Martin
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended March 31, 2008

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	26,000	26,000	7,525	(18,475)
Building inspection department	-	-	2,194	2,194
Total public safety	26,000	26,000	9,719	(16,281)
Public works				
Department of public works	58,500	58,500	31,441	(27,059)
Sidewalks	5,000	5,000	135	(4,865)
Street lighting	8,500	8,500	7,511	(989)
Total public works	72,000	72,000	39,087	(32,913)
Transfers out	32,500	32,500	32,500	-
Total expenditures	185,000	185,000	125,211	(59,789)
Excess (deficiency) of revenues over expenditures	(63,000)	(63,000)	13,336	76,336
Fund balance - beginning of year	258,273	258,273	258,273	-
Fund balance - end of year	\$ 195,273	\$ 195,273	\$ 271,609	\$ 76,336

See Accompanying Notes to Financial Statements

**Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Members of the Village Council
Village of Martin

We have audited the financial statements of the governmental activities, the business type activities, and each major fund of the Village of Martin as of and for the year ended March 31, 2008, which collectively comprise Village of Martin's basic financial statements and have issued our report thereon dated October 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Village of Martin's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Martin's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements would not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting as for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Martin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Village Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Yeo & Yeo, P.C.

October 10, 2008
Kalamazoo, Michigan



710 E. Milham
Kalamazoo, MI 49002
(269) 329-7007 / (800) 375-3968
Fax (269) 329-0626

October 10, 2008

Management and the Village Council
Village of Martin
P.O. Box 234
Martin, MI 49070

We have completed our audit of the financial statements of the Village of Martin as of and for the year ended March 31, 2008 and have issued our report dated October 10, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

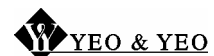
II Management Comments

We discussed these matters with various personnel in the organization during the audit. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Village Council, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

Sincerely,

Yeo & Yeo, P.C.
Kalamazoo, Michigan



Appendix I

Communication to Those Charged with Governance

Responsibilities under generally accepted auditing standards

As stated in our engagement letter dated, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit as outlined in our engagement letter to you related to planning matters dated May 19, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in (Note 1) of the financial statements. We noted no transactions entered into by the Village during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.

Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.

Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

Disagreements with Management

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

Management's Consultations with Other Accountants

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

Significant Issues Discussed or Subject to Correspondence with Management

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.

Other Reports

Other information that is required to be reported to you is included in the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Please read all information included in that report to ensure you are aware of relevant information.

Appendix II Management Comments

In planning and performing our audit of the financial statements of the Village of Martin as of and for the year ended March 31, 2008, we considered Village of Martin's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated October 10, 2008 on the financial statements of the Village of Martin. Our comments and recommendations regarding those matters are:

Financial Statement Preparation Controls

In conjunction with our audit, we have been contracted to prepare the financial statements and related disclosures based on the information provided to us by Management. We would like to stress that this service is allowable under AICPA ethics guidelines and may be the most efficient and effective method for preparation of the Village's financial statements. However, if at any point in the audit we as auditors are part of the Village's control system for producing reliable financial statements, auditing standards indicate that the Village has a control deficiency. If Management is not able to prepare financial statements, including disclosures, and the auditors are contracted to prepare these statements, this is considered a control deficiency.

Suggestion: We recommend that Management and those charged with governance evaluate and document their decision on the costs and benefits of whether to contract for this service with our firm.

Internal Controls Documentation

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Village. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete.

Suggestion: We recommend that the Village completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

Audit Adjustments

A number of audit adjustments were required to record receivables for state revenue sharing and utility billings and to record capital asset additions, disposals and depreciation expense in the Sewer, Water and Equipment Funds.

Suggestion: We recommend that the Village Clerk record these journal entries prior to the audit fieldwork to reduce the number of audit adjustments required.